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April 24, 2006

Mr. Charles L. A. Terreni  
Chief Clerk and Administrator  
Public Service Commission of SC  
100 Executive Center, Suite 100  
Columbia, South Carolina 29210

**Re:** Request of South Carolina Electric & Gas for An Accounting Letter Authorizing the  
Amortization of Unrecovered Propane Air Plant Investment  
HSB File No.: 04381-217

Dear Mr. Terreni:

In Order No. 2005-653, the Public Service Commission of South Carolina (the Commission) found that South Carolina Electric & Gas Company (SCE&G) could retire its propane air facilities located in North Charleston and Columbia (the Propane Air Facilities) after depleting the propane inventories on hand during the 2005-2006 winter heating season. Under standard utility industry accounting practices, upon retirement of the Propane Air Facilities SCE&G will compute its unrecovered investment (the Unrecovered Investment) recognizing net accumulated depreciation, salvage value, removal costs, and other associated costs. The initial amount of the Unrecovered Investment will be established using estimates of any costs and values that are not conclusively known at this time. Thereafter, the Unrecovered Investment would be adjusted pursuant to generally accepted accounting principles as amortization expense is recognized and as further information related to salvage value, removal costs or other associated costs becomes available. SCE&G estimated the Unrecovered Investment to be approximately \$2.5 million as of December 31, 2005.

In keeping with established Commission practice related to plant retirements of this type, SCE&G respectfully requests that the Commission issue an Accounting Letter to allow SCE&G to record the Unrecovered Investment in FERC Account 182.2 "Unrecovered Plant and Regulatory Study Costs." SCE&G requests that it be authorized to book the Unrecovered Investment to FERC Account 182.2 on the date that it ceases to use the plants for utility purposes.

During the period between the retirement date and November 1, 2006 SCE&G proposes to credit to the balance of the Unrecovered Investment and recognize in expense an amount equal to the reduction in SCE&G's depreciation expense as a result of the retirement. Beginning on November 1, 2006, SCE&G proposes to amortize the balance of the Unrecovered Investment in Account 182.2 over five years.

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This approach to the timing of the amortization amounts would give SCE&G a reasonable time to complete the salvage and removal of the Propane Air Facilities, thereby quantifying the associated costs and values with greater certainty. This approach would also time the commencement of the five year amortization of the balance in the account to coincide with any adjustment in rates that would take place in November, 2006 as a result of the Natural Gas Rate Stabilization Act.

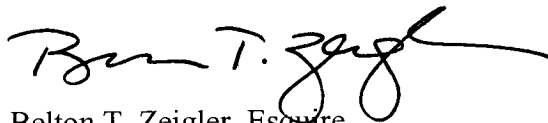
The issuance of the requested Accounting Letter will not involve a change to any of SCE&G's rates or prices, or require any change in any Commission rule, regulation or policy. In addition, SCE&G notes that issuance of the requested Accounting Letter will not prejudice any party's right to address this issue in a subsequent general rate case proceeding.

Section 58-5-240(g) (Supp. 2004) of the South Carolina Code of Laws allows the Commission to issue the requested Accounting Letter without notice or hearing. SCE&G, however, has filed for its gas distribution rates to come under the terms of the Natural Gas Rate Stabilization Act (RSA), Section 58-5-400, *et. seq.* of the Code of Laws of South Carolina and the Commission granted this request in Order No. 2005-653. Under Section 58-5-430(2) of the RSA, accounting letters such as the letter requested here are recognized in RSA filings. For this reason, the RSA provides at Section 58-5-430(2) that "other parties shall be given sufficient opportunity to review and provide comments on any proposed accounting letter or order...."

Accordingly, with this letter SCE&G is providing a copy of a proposed accounting letter which it would respectfully request the Commission to post along with this letter for public comment. SCE&G would also request that the Commission allow interested parties fourteen (14) days from the date of posting to submit comments to the Commission concerning this proposed letter, and thereafter take up the proposed letter for adoption by the Commission.

Thank you for your consideration of this matter.

Respectfully submitted,



Belton T. Zeigler, Esquire  
Counsel for SCE&G

cc: C. Dukes Scott, Executive Director  
Nanette Edwards, Esq.  
John W. Flitter, Director of Electric & Gas  
Office of Regulatory Staff

**South Carolina Electric & Gas Company**  
**Request for Accounting Letter Related to Propane Air Facility Retirements**  
**Proposed Text of Commission Accounting Letter**

By letter dated April 24, 2006, South Carolina Electric & Gas Company (“SCE&G” or “Company”) through counsel has requested that the Public Service Commission of South Carolina (the “Commission”) issue an Accounting Letter to authorize SCE&G to amortize over five years the net undepreciated investment in its propane air facilities located at North Charleston and Columbia (the “Propane Air Facilities”).

In Order No. 2005-653 the Commission found that SCE&G could properly retire the Propane Air Facilities after depleting the inventories on hand during the 2005-2006 winter heating season. Under standard utility accounting practices, upon retirement of the Propane Air Facilities SCE&G will compute its unrecovered investment in these facilities (the “Unrecovered Investment”), recognizing net accumulated depreciation, salvage value, removal costs, and other associated costs. The initial amount of the Unrecovered Investment will be established using estimates of the costs and values that are not conclusively known at that time. Thereafter, the net amount of the Unrecovered Investment would be adjusted pursuant to generally accepted accounting principles as amortization expense is recognized and as further information related to salvage value, removal costs or other associated costs becomes available.

SCE&G has requested an accounting letter allowing it to recognize this Unrecovered Investment as a deferred expense in FERC Account 182.2 “Unrecovered

Plant and Regulatory Study Costs” as found in 18 CFR 201 (2005) on the date that it ceases to use the plants for utility purposes.

During the period between the retirement date (the “Retirement Date”) and November 1, 2006, SCE&G proposes to credit to the balance of the Unrecovered Investment and recognize in expense an amount equal to the reduction in SCE&G’s depreciation expense as a result of the Propane Air Facilities’ retirement. Beginning on November 1, 2006, SCE&G proposes to amortize the balance of the Unrecovered Investment in Account 182.2 over five years.

SCE&G proposes this approach to amortization to allow it a reasonable time to complete the salvage and removal of the Propane Air Facilities, thereby quantifying the associated costs and values with greater certainty. SCE&G also states that this approach will allow the commencement of the five year amortization of the balance in the account to coincide with any adjustment in rates that would take place in November, 2006 as a result of the Natural Gas Rate Stabilization Act.

The Commission finds that the issuance of the requested Accounting Letter will not involve a change to any of SCE&G’s rates or prices, or any Commission rule, regulation or policy. In addition, issuance of the requested Accounting Letter will not prejudice any party’s right to address this issue in a subsequent general rate case proceeding.

Pursuant to Section 58-27-870(f) (Supp. 2004) of the South Carolina Code of Laws, the Commission may issue the requested Accounting Order without notice or

hearing because the Letter will not result in any rate increase to SCE&G's customers. However, in Order No. 2005-653, the Commission granted SCE&G's request for its gas distribution rates to come under the terms of the Natural Gas Rate Stabilization Act (RSA), Section 58-5-400, *et. seq.* of the Code of Laws of South Carolina. Under Section 58-5-430(2) of the RSA, accounting letters such as the letter requested here are to be recognized in RSA filings. For this reason, the RSA provides at Section 58-5-430(2) that "other parties shall be given sufficient opportunity to review and provide comments on any proposed accounting letter or order . . ."

Accordingly, the Commission has posted for public comment the letter from SCE&G requesting this Accounting Letter and the proposed Accounting Letter provided with SCE&G's letter. The Commission has allowed interested parties fourteen (14) days from the date of posting to submit comments to the Commission concerning the proposed Accounting Letter.

The Commission has examined SCE&G's request and considered all comments received. The Commission has concluded for the reasons set forth in the request that it should be granted as filed. Accordingly, the Commission issues the Accounting Letter as requested:

1. Upon retirement of the Propane Air Facilities, SCE&G may record the Unrecovered Investment in those facilities, after recognition of accumulated depreciation, salvage value, removal costs other associated cost, in FERC Account 182.2 "Unrecovered Plant and Regulatory Study Costs."

2. During the period between the Retirement Date and November 1, 2006, SCE&G shall credit to the balance of Unrecovered Investment an amount equal to the reduction in SCE&G's depreciation expense as a result of the retirement and shall recognize a corresponding amortization expense.

3. Beginning on November 1, 2006, SCE&G shall amortize the balance of the Unrecovered Investment in Account 182.2 over five years and recognize a corresponding amortization expense.

4. Pursuant to generally accepted accounting principles and FERC Account 182.2(c), SCE&G may make such adjustments in the amount of Unrecovered Investment in the Propane Air Facilities reflected in FERC Account 182.2 as facts and circumstances shall warrant.

5. This accounting letter will not prejudice any party's right to address the matters contained herein in a subsequent general rate case proceeding.

6. This accounting letter shall remain in full force and effect until further Order of the Commission.

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Randy Mitchell, Chairman

ATTEST:

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G. O'Neal Hamilton, Vice Chairman

(SEAL)